Business Environment for
Small and Medium-Sized Enterprises (SME) in Egypt
and
SMEs’ Interaction with Government Agencies

2009 Survey on Corruption

Final Report
The Center for International Private Enterprise (CIPE) strengthens democracy around the globe through private enterprise and market-oriented reform. CIPE is one of the four core institutes of the National Endowment for Democracy. Since 1983, CIPE has worked with business leaders, policymakers, and journalists to build the civic institutions vital to a democratic society. CIPE’s key program areas include anti-corruption, advocacy, business associations, corporate governance, democratic governance, access to information, the informal sector and property rights, and women and youth.

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# Business Environment for Small and Medium Sized Enterprises in Egypt and SMEs’ Interaction with Government Agencies

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I. About the Survey

Weak governance and insufficient transparency allow space for corruption to flourish. Insight into where and how corruption occurs and which transactions are most prone to bribery can help reformers know where to focus their efforts. The Center for International Private Enterprise (CIPE)’s “Combating Corruption and Promoting Transparency” project is a comprehensive program of survey research, training, and technical assistance intended to raise awareness of corruption in Egypt and combat its corrosive effects on the economy and society.

As a part of this project, CIPE commissioned a survey of nearly 800 Egyptian small and medium-sized enterprises (SMEs) about their experience with corruption in the course of doing business. The survey was carried out by the Ahram Center for Political and Strategic Studies (ACPSS) in association with CIPE and its partners the Federation of Economic Development Associations (FEDA), the Egyptian Junior Business Association, and the Entrepreneurs Business Forum (EBF) – which assisted ACPSS in reaching out to SMEs in these governorates to participate in the survey.

CIPE and its partners have drawn upon the survey results to design an advocacy program to raise awareness of corruption and recommend specific policy changes to reduce the risk of corruption.

The “Combating Corruption and Promoting Transparency” project is led by an advisory council of prominent Egyptian experts consisting of the project partner organizations listed above, as well as other business associations, civil society organizations, multinational corporations, political parties, and media outlets. Advisory council members were selected based on their demonstrated commitment to political and economic reform in Egypt, experience and engagement in civil society, erudition, character, and public credibility.

The project is made possible by a grant from the United States Agency for International Development.
II. Program Advisory Council

Osama Murad, Co-Chair
Chairman & CEO, Arab Finance Brokerage Co.
Abdul Motei Lotfi, Co-Chair
Vice Chairman, Federation of Economic Development Associations

Sayed Ali
Assistant Chief Editor, Ahram Newspaper
Sherin Allam
Chairperson, AWTAD (Business Women Association)
Ashgan Ateya
Accountant
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Executive Director, Center for Responsible Business Conduct
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Director, Policy & Corporate Affairs, and board secretary, CI Capital Holding

Gamal Abdul Gawad
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Saad Hagras
Managing Editor, Alam Al Youm
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Former Chairman, Chamber of Leather Industries
Samir Hamza
Partner, Helmy and Hamza Law Firm (Baker & Mckenzie)
Anan Helal
Secretary General, Consumer Protection Agency
Hossam Hilal
Managing Director, Grant Thornton Egypt
Amr Hilaly
Board Member, Egyptian Junior Business Association

Ghada Hussain
Managing Director, Horizon
Mohamed Mansour
Vice President, Regional Compliance Officer for MENA, Siemens
Ghada Moussa
Coordinator, Transparency and Integrity Council, Ministry of Local Administration

Munir Fakhry Abdul Nour
Chairman, Vitrac and Secretary General, Al Wafd Party
Mesbah Qotb
Senior Business Reporter, Al Masry-Al Youm
Ahmed Ragab
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Zakareya Abd Al Rahman
Chairman, Al Fayomi Co, and founder, Al Wasat Party
Abdul Ghaffar Shokr
Vice President, Arab & African Research Center
Zeinab Tawfik
Managing Director, Condor Shoe Industries
Fouad Thabet
Chairman, Federation of Economic Development Associations

Ihab Youssef
Board Member, Egyptian Junior Business Association
Tarek Youssef
Principal Partner, Grant Thornton Egypt; and Secretary General, Egyptian Tax Professionals Association
III. General Comments on SMEs’ Interaction with Government

In Egypt, there is a gap between the expectations of business owners in dealing with government offices and their actual experience, though the gap is not consistent in terms of whether expectations exceeded or fell short of reality. For example, 19 percent found dealing with government offices to be easy, while only 7 percent expected it to be easy. By contrast, 47 percent found their actual experience to be difficult, while only 36 percent expected it to be difficult. This gap may reflect distorted perceptions, but it might also reflect inconsistency in the performance of government offices, adding a level of unpredictability to the process that is unfavorable to doing business.

Figure 1: How can you describe your experience when dealing with the government agencies during the establishment process? (very easy; easy; normal; difficult; very difficult) Was the establishment process easier or more difficult than you expected?

*DK/NA = ‘Don’t Know / No Answer’
The most pervasive form of corruption is bribes to government employees in offices engaged in the licensing and operational oversight of business. Forty-two percent of businesses surveyed reported having paid bribes during the process of establishing a business. This percentage decreases to 29 percent during the operation of the business.

**Figure 2:** Were you obliged to offer illegal payments or presents to: obtain the licenses necessary for your business/operate your business?

![Figure 2](image)

In the conventional wisdom in Egypt, paying bribes is considered to be pervasive; however, it is not consistent among all those who deal with government offices. ACPSS examined the relationship between the predispositions of those who deal with government offices toward bribery prior to their interaction with the government and whether or not they eventually paid a bribe. Figure 3 shows that those who deal with government offices are classified into four categories that range between those who did not anticipate bribery before starting the process of establishing a business (highest percentage) and those who entered the process willing to pay (smallest percentage).

**Figure 3:** Were you prepared to pay money or offer presents when you set out to establish your enterprise? (I was prepared; I intended to resist; I was prepared to adapt to circumstances; I never thought about it before I started the enterprise)

![Figure 3](image)
Looking at respondents who did pay bribes, we see a wide variance depending on their inclination toward bribery in advance. The highest percentage was observed in those ready to adapt to hints and/or pressure exerted by general officials, followed by the category of the customers who did not anticipate bribery before starting their business. The fewest instances of paying bribes are among those who were determined to resist bribery from the outset, as indicated in figure 4.

**Figure 4:** Were you prepared to pay money or offer presents when you set out to establish your enterprise? (I was prepared; I intended to resist; I was prepared to adapt to circumstances; I never thought about it before I started the enterprise) (Of those who did pay bribes [335])

![Bribery Preparedness Chart]

**NOTE:** Percentages based on a subset of the 797 total respondents have the subset total noted in [brackets].
As shown in figure 5, a large majority of those who were ready to pay bribes did pay bribes – 74 percent. Next were those who were willing to adapt to the situation: 58 percent of those paid bribes. Surprisingly, the fewest instances of bribery were among those who did not anticipate paying bribes in advance of the process. This category saw even fewer instances of bribery at 27 percent than those who went into the process determined to resist paying bribes – 39 percent of those eventually did pay bribes. This would suggest that it is possible to avoid or resist paying bribes.

Figure 5: Were you prepared to pay money or offer presents when you set out to establish your enterprise? (I was prepared; I intended to resist; I was prepared to adapt to circumstances; I never thought about it before I started the enterprise) (% of respondents in each category who eventually paid vs. did not pay)
We also see an increase over time in the inclination toward, or willingness to engage in, bribery.

Figure 6: Were you prepared to pay money or offer presents when you set out to establish your enterprise? [772] (I was prepared; I intended to resist; I was prepared to adapt to circumstances; I never thought about it before I started the enterprise) (By date of establishment)
Figure 7 shows that business owners who did not pay bribes were able to complete the process of registering a business in a time that is shorter than those who paid bribes. They also obtained fewer licenses to start their businesses. This could be because those who paid bribes received benefits other than reducing the number of licenses or shortening the registration process. For example, those who have paid bribes may have lacked the legal requirements to start a business, or they were hoping to influence the government employee to interpret the laws and regulations in their favor. Clarifying laws and regulations and reducing the discretionary authority of government employees in implementing them would reduce opportunities for corruption.

**Figure 7: How long did it take you to establish your enterprise? How many government departments did you have to interact with? How many licenses or permits did you have to obtain? (Paid [332] vs. did not pay [441])**

![Bar chart showing average time (months), average number of departments, and average number of permits for those who paid versus those who did not pay bribes.](chart.png)
This may also help to explain the results shown in figure 8, that owners who set out to establish their business with the intention to resist paying bribes tend to finish the registration process in a shorter period of time. It seems that the predisposition of business owners toward bribes relates to a large extent to their knowledge and understanding of the laws and regulations governing their type of business (including those governing the registration process itself), and not only to their compliance with ethical standards.

**Figure 8: How long did it take you to establish your enterprise (in months)? [776] (By predisposition to bribery)**

It would seem, then, that bribery is not mandatory. It is possible to complete all of the various elements of the process of registration without paying bribes, and in a reasonable amount of time. The opportunities for corruption exist in cases when business owners are not fully conversant in the registration process or the laws and regulations governing their industry, or do not have the appropriate paperwork or information; or in cases when laws and regulations are unclear or contradictory, and are thus subject to government employees’ discretionary interpretation.

The results are indicative that limiting corruption in government transactions may be achieved through different means, mainly:

- Publish procedures of starting businesses.
- Encourage business owners who want to start business according to published procedures not to pay bribes, knowing that this will not delay or complicate the process.
- Streamline and keep updated procedures regulating business.
Importantly, the results of the survey show that there is a difference between different governmental agencies, as shown in Figure 9. The figure shows that local governments are the highest on the demand side of corruption, followed by customs, industrial safety, health, and environment, taxes, electricity, water, telecommunication, banks, and finally the police.

**Figure 9:** In your dealing with the following departments, in which ones do you have to pay money or offer presents? (Percentage of each not requiring bribes)
In comparing the performance of these departments in the past and the present years to see the improvement, results indicate that business owners perceived improvement in taxes, telecom, electricity, and water. Meanwhile, business owners perceived deterioration in the performance of the police and local governments, as reflected in figure 10. While the police department is the on the bottom of the curve in receiving bribes from SMEs, the public still see the police performance as deteriorating, for other reasons not related to corruption.

**Figure 10:** In each of the following cases, is the department better or worse about asking for bribes than three years ago? (greatly improved; improved; remained the same; became worse; became much worse) (local administration; industrial safety department; environmental department; police; health department; tax department; customs; banks; electricity company; water supply; telephone company)
Business interacts with the government not only in its capacity as a regulator but also as a customer. As a result of public procurement, government remains Egypt's largest consumer. When asked about government procurement, respondents were very negative – only 20 percent answered that government procurement is carried out in compliance with the law. 33 percent said laws are not respected, and 26 percent cited weak oversight mechanisms (see Figure 11).

Figure 11: How would you assess the implementation of government tenders currently? (strictly abiding to the rules and laws; manipulation occurs in the interpretation of the laws to favor specific interests; poor oversight by those implementing the laws; other)
Asked about corruption in government procurement, 37 percent believe that bribes are paid to win government tenders, with an additional 27 percent believing that the practice takes place to a limited extent (see Figure 12). Only 9 percent believe that bribes do not take place at all.

**Figure 12: To your knowledge, are bribes being paid to win government tenders? (To a great extent; to a big extent; to an extent; to a limited extent; no money is paid at all)**
However, it is essential to note the difference in beliefs about corruption in government procurement between business owners who have direct experience with government bids and those who do not (see Figure 13). The figure shows that businesses with direct experience with procurement view the process more favorably than those without such experience. This might suggest that reality is not as bad as the stereotype. It may also suggest that those with a stake in the process currently are less likely to want to criticize it. It is impossible to know from the data.

**Figure 13: To your knowledge, are bribes being paid to win government tenders? (To a great extent; to a big extent; to an extent; to a limited extent; no money is paid at all) (Those with experience with tenders [299] vs. without [323])**
In comparing private and public sectors as vendors for products and services; business owners prefer dealing with the private sector rather than public sector (see Figures 14 and 15).

Figure 14: Are you obliged to pay bribes to receive goods or services from the private sector / from the public sector? (yes; no; sometimes)

Figure 15: Is the private sector or the public/government sector better with regard to the supply of commodities and services? (private sector; public sector; no difference)
When asked why they believe government employees accept bribes, respondents cited low government salaries, lack of integrity, and weak monitoring systems (see Figure 16).

**Figure 16: Why in your opinion do civil servants accept illegal payments or presents? (the low salary of the civil servant; because they are greedy and have no conscience; no monitoring and oversight)**
III. Business Environment in Different Governorates in Egypt

Across the six governorates, the average period of time needed to complete the process of registering a business is 6.22 months. The process took longest on average in Minia (10.16 months) and in Gharbeya (9.45 months); the shortest average registration time was in Port Said.

Figure 17: How long did it take you to establish your enterprise? [776] (By governorate)

Avg. Time (Months)

There is a relationship between the average period of time needed to register a business and the number of offices that the business needs to deal with. The data suggests, however, that the number of offices is not the only indicator of the duration of the process, since in Port Said business must visit the most offices, and yet the process is shorter than the other governorates in the survey.

Figure 18: How many government departments did you have to interact with during the establishment process? [784] (By governorate)
Looking at the number of licenses needed to start a business, respondents in Minia, Gharbeya and Port Said cited the most licenses. These are also the three governorates in which businesses have to deal with the most governmental departments. This suggests a strong relationship between the number of departments and the number of required licenses and the time needed to time needed to establish the business. The exception is Port Said governorate, where the time needed to start a business is shorter than the average, but the number of licenses and offices is higher.

Figure 19: How many licenses or permits did you have to obtain to start your business? [786] (By governorate)

Surprisingly, there is an inverse relationship between the time and number of required offices and payment of bribes. In governorates like Minia and Gharbeya, in which the licensing process is longer, instances of bribery are fewer. This may indicate that in the governorates with a shorter licensing process, bribes are helping to speed up the process.

Figure 20: Were you obliged to offer illegal payments or presents to obtain the licenses necessary for your business? [784] (‘Yes’ answers by governorate)
The varying instances of bribery among governorates raises the question of the predisposition of the owners in each governorate towards such practice, as shown in Figure 21. According to the responses, Cairo business owners are more likely to pay bribes, whereas business owners in Alexandria are more likely to resist paying bribes. Business owners of Dakahleya are more likely to adapt to the situation, whereas Gharbeya business owners are less likely to anticipate bribery in setting out to establish a business.

**Figure 21:** Were you prepared to pay money or offer presents when you set out to establish your enterprise? (I was prepared; I intended to resist; I was prepared to adapt to circumstances; I never thought about it before I started the enterprise) [772] (By governorate)

<table>
<thead>
<tr>
<th></th>
<th>Cairo</th>
<th>Alexandria</th>
<th>Port Said</th>
<th>Gharbeya Dakaleya</th>
<th>Dakaleya</th>
<th>Minia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Willing to pay</td>
<td>13%</td>
<td>6%</td>
<td>4%</td>
<td>6%</td>
<td>7%</td>
<td>2%</td>
</tr>
<tr>
<td>Wanted to resist</td>
<td>19%</td>
<td>16%</td>
<td>9%</td>
<td>1%</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>Prepared to adapt</td>
<td>34%</td>
<td>38%</td>
<td>9%</td>
<td>39%</td>
<td>41%</td>
<td>28%</td>
</tr>
<tr>
<td>Did not think about it beforehand</td>
<td>54%</td>
<td>55%</td>
<td>61%</td>
<td>37%</td>
<td>41%</td>
<td>28%</td>
</tr>
</tbody>
</table>
IV. Business Size

The survey results show no difference between larger and smaller businesses and their experience with government departments, except that as one might expect, larger businesses require more time to get licensed and must deal with more governmental offices and obtain more licenses.

Figure 22: How long did it take you to establish your enterprise? [776] (By size of business)

![Average Time (Months)](image)

Figure 23: How many government departments did you have to interact with? [784] (By size of business)

![Government Departments Interaction](image)
There is an indication that government employees give preferential treatment to larger businesses. Additionally, larger businesses pay more bribes than smaller during the establishment period. But interestingly, this trend does not continue in the operation period (perhaps because larger businesses have greater capacity to comply with regulations).

Figure 25: Was the establishment process easier or more difficult than you expected? (Much harder than expected; harder than expected; as expected; easier than expected; much easier than expected) [786] (‘Easier” answers, by size of business)
Figure 26: Were you obliged to offer illegal payments or presents to: obtain the licenses necessary for your business [336] / operate your business [231]? (‘Yes’ answers, by size of business)
V. Business Sector

Results for the industrial and agricultural sectors were reported together, as businesses in the agricultural sector in the sample did not exceed 1.8 percent. From the responses, we can see that business in the sectors of industry and agriculture face greater difficulty with corruption than services and trade.

Figure 27: How can you describe your experience when dealing with the government agencies during the establishment process? (very easy; easy; normal; difficult; very difficult) [783] (By sector)
As reflected in figure 28, it seems that this difficulty relates to the increase in number of government offices businesses owners have to deal with. Businesses in the trade and services sectors deal with 4 to 6 offices to complete the establishment of a business; while those in the industry and agriculture sectors deal with 7 to 10 offices. The same trend applies to the number of licenses needed to complete establishing a business. The need to deal with more government offices to obtain a license leads to increased opportunity for bribery.

Figure 28: How many government departments did you have to interact with? [794] (By sector)
Figure 29: How many licenses or permits did you have to obtain to start your business? [783] (By sector)
Figure 30 shows that businesses in the industrial and agricultural sectors pay more bribes during the establishment period. This trend does not extend to the operation of the business, at which point businesses in the trade sector tend to pay more bribes than those in industry or services.

**Figure 30: Were you obliged to offer illegal payments or presents to: obtain the licenses necessary to start your business [781] / operate your business? [792] (‘Yes’ answers, by sector)**

![Bar chart showing the percentage of businesses in different sectors that were obliged to offer illegal payments or presents during the establishment period and operation.](chart)
VI. Research Methodology

The survey was conducted from April 21, 2009 to May 14, 2009. The sample consisted of 800 SMEs interviewed in six governorates, as follows:

- Cairo (250)
- Alexandria (150)
- Port Said (100)
- Gharbeya (100)
- Dakahleya (100)
- Minia (100)

In designing a nationally-representative sample, survey researchers can rely upon census data as the basis for the sample. The lack of availability of, and access to, accurate data regarding a specific sector such as SMEs necessitates a more innovative sample design.

The source for the sample in each governorate depended on the availability of data for that governorate. The Yellow Pages for the Cairo and Alexandria governorates were used, as they include all businesses in the governorate. Additionally, the Entrepreneurs Business Forum in Alexandria provided substantial data for the Alexandria governorate. For the other governorates, we contacted business associations for their membership lists. In all cases, one list was compiled for each governorate and a random sample was built from that list.

The sample for the SME survey was based upon data from three main resources:

1. Lists of SMEs from CIPE, the Entrepreneurs Business Forum, and the Federation of Economic Development Associations (FEDA);
2. Lists from business associations in Minia, Dakaleya, and Gharbeya;
3. The Cairo and Alexandria Yellow Pages.

In all cases the sample was constructed using a multi-staged stratified systematic random sampling technique using the following procedures:

1. Differentiating between four sectors in the database: industry, trade, services, and agricultural and agricultural production;
2. Assigning weight to businesses in each sector proportionate to the total number of businesses in that sector according to the available data for each governorate;
3. Selection of samples using systematic random selection from the available data from each governorate.
VII. Survey Demographics

Table 1 – Business Establishment Date

<table>
<thead>
<tr>
<th>Date Range</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952 and earlier</td>
<td>1.0</td>
</tr>
<tr>
<td>1953-1962</td>
<td>1.0</td>
</tr>
<tr>
<td>1963-1972</td>
<td>1.4</td>
</tr>
<tr>
<td>1973-1982</td>
<td>5.8</td>
</tr>
<tr>
<td>1993-2002</td>
<td>34.5</td>
</tr>
<tr>
<td>2003-2009</td>
<td>41.7</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Table 2 – Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>18.6</td>
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<tr>
<td>Trade</td>
<td>46.7</td>
</tr>
<tr>
<td>Service</td>
<td>32.9</td>
</tr>
<tr>
<td>Agriculture and agricultural production</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
</tr>
<tr>
<td>Table 3 – Number of Employees</td>
<td>Percent</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>---------</td>
</tr>
<tr>
<td>1-5</td>
<td>32.5</td>
</tr>
<tr>
<td>6-10</td>
<td>23.9</td>
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<td>11-25</td>
<td>22.9</td>
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<tr>
<td>26-50</td>
<td>11</td>
</tr>
<tr>
<td>51-100</td>
<td>5.2</td>
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<td>More than 100</td>
<td>4.6</td>
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<tr>
<td>Total</td>
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<table>
<thead>
<tr>
<th>Table 4 – Business Investment by Thousands of Egyptian Pounds</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>2.8</td>
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<tr>
<td>6-10</td>
<td>3.1</td>
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<tr>
<td>11-25</td>
<td>4.6</td>
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<td>7.0</td>
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<td>51-100</td>
<td>9.6</td>
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<tr>
<td>101-249</td>
<td>10.9</td>
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<td>250 and more</td>
<td>61.9</td>
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<tr>
<td>Total</td>
<td>100.0</td>
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<table>
<thead>
<tr>
<th>Table 5 – Geographic Reach of Business</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local within the governorate</td>
<td>32.1</td>
</tr>
<tr>
<td>Regional – more than one governorate</td>
<td>11.9</td>
</tr>
<tr>
<td>Egypt</td>
<td>37.7</td>
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<tr>
<td>International Market</td>
<td>18.2</td>
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<tr>
<td>Total</td>
<td>100.0</td>
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</table>
### Table 6 – Computer Usage

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<tr>
<th></th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>81.1</td>
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<tr>
<td>No</td>
<td>14.7</td>
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<tr>
<td>Sometimes</td>
<td>4.2</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
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### Table 7 – Age of Business Owner

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-30</td>
<td>4.1</td>
</tr>
<tr>
<td>31-40</td>
<td>22.0</td>
</tr>
<tr>
<td>41-50</td>
<td>59.4</td>
</tr>
<tr>
<td>51-60</td>
<td>10.1</td>
</tr>
<tr>
<td>61 and older</td>
<td>4.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
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</tbody>
</table>

### Table 8 – Gender of Business Owner

<table>
<thead>
<tr>
<th>Gender</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>96.0</td>
</tr>
<tr>
<td>Female</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
Table 9 – Education Level of Owner

<table>
<thead>
<tr>
<th>Level</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illiterate</td>
<td>1.8</td>
</tr>
<tr>
<td>Primary</td>
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Appendix A: Comments on the CIPE SME Survey by the Federation of Economic Development Associations (FEDA)
Implications of the Survey Sample

Establishment Date: Approximately 91 percent of the survey sample was taken from enterprises established between 1983 and 2009. Businesses/enterprises established in Egypt during that timeframe from 1983 to 2007 faced several obstacles when establishing their enterprises, including multiple authorizations and licensing requirements.

However, the creation of ‘one stop shop’ services in 2007 significantly simplified the startup process. For this reason, FEDA recommended removing many of the enterprises established between 2007-2009 from the sample, thereby reducing the number of enterprises established between 2003-2007 to represent only 42 percent of the total sample size.

Sector: The manufacturing sector represents 19 percent of the survey sample, which is comparable to the manufacturing sector’s overall percentage of GDP in Egypt. The trade and services sector contributes to 80 percent of the sample, however, which is more than its contribution to the GDP. Thus the agriculture and agri-industries are underrepresented in the survey compared with these industries’ real contribution to GDP.

Labor: Approximately 33 percent of the enterprises surveyed in this sample employ between 1-5 workers. These enterprises are SMEs which are managed by a single or few individuals. However, this percentage is not representative of the Egyptian economy as a whole, where 98 percent of enterprises employ 1-5 workers. Therefore, FEDA believes this sample should have included a much larger sample of SMEs.

Capital: Egyptian Law No. 141/2004 defines micro-enterprises according to amount of capital and number of employees. Businesses with capital from 1,000-50,000 Egyptian pounds (LE), classified as micro-enterprises, amounted to 18 percent of the survey sample. However, micro-enterprises are also defined as employing between 1-5 workers, and businesses employing 1-5 employees make up 33 percent of the sample. Therefore, FEDA believes there is a contradiction in the sample makeup, which may not represent micro enterprises accurately.

Scope of Enterprise: This study concludes that 82 percent of small enterprise production in Egypt provides services or products to the local market. However, this does not necessarily mean that the remaining 18 percent focus only on foreign markets. Instead, it is possible that these small businesses
are also import and trade agencies. FEDA believes that no less than 95 percent of small enterprise production in Egypt is geared toward the local market and 5 percent to external markets, which more or less corresponds with the survey results. FEDA also believes that it is important to define the external market and questions whether the import of foreign products should be included in this definition.

Technology: 81 percent of the sample uses a computer in their business activities. However, the study did not define which applications and software they use and for what purposes they use this technology for.

Age: Four percent of surveyed business owners are between the ages of 18-30 years. This percentage does not reflect Egypt’s actual demographic situation, as the youth, unable to find jobs, have mostly resorted to self-employment in the last 15 years. Today, business owners between the ages of 18-30 represent more than 60 percent of the labor force in Egypt.

Gender and Education: Females represented 4 percent of the sample. In FEDA’s opinion, this percentage reflects Egypt’s actual economic situation – female business owners or partners do not exceed this percentage. The survey sample’s education level also reflects Egypt’s current situation, in FEDA’s opinion.

Interaction between the Private Sector and Government

FEDA agrees with the study’s findings, which show that the most prevalent form of corruption for business owners is the illegal payment of money to public officials working in either government administration offices or in local councils.

FEDA disagrees with the study’s findings that 43 percent of the survey sample paid bribes during the business’s “startup phase” and only 29 percent of the sample paid bribes to operation and licensing bodies. This percentage would seem to contradict Egypt’s actual situation because there are three times more operation government bodies than startup agencies.

FEDA agrees with the study’s conclusion that there is good reason to assume that paying bribes to public servants depends mainly on the individual’s inclination to engage in corrupt practices.

FEDA agrees completely with the study’s findings that some citizens pay bribes to not only expedite authorizations and licenses, but to also receive an unmerited license or permit. Such corrupt practices create a lack of oversight by government authorities, who overlook the many necessary requirements to start a business in Egypt. This study emphasizes that current laws and regulations are unclear, inapplicable, and impede Egypt’s transformation into a free economy.

Ambiguous laws and regulations allow authorities to exploit their positions to obtain bribes. Both FEDA and this study agree that combating corruption should be implemented through various approaches, including the removal of ambiguous laws and regulations governing businesses and their activities.

FEDA agrees that any citizen who demands his legal rights from, and does not offer illegal payments to, government bodies, will complete a transaction in a shorter time and face fewer bureaucratic obstacles than one who does not demand his legal rights and opts to pay a bribe.
FEDA agrees with the study’s findings suggesting the following recommendations to minimize corrupt practices during government transactions:

- Publish all information relating to the startup and licensing of all businesses. FEDA has made the passage of an “Access to Information Law” as a top priority.
- Review and update existing regulations pertaining to business licensing.

FEDA agrees with the study’s conclusion that business owners are expected to pay bribes to governmental authorities most often at the local council level. However, FEDA does not believe that banks and telephone companies should rank second and third, respectively, in terms of these practices. Instead FEDA believes that electricity companies and the police should be considered the second and third most common institutions to engage in corrupt practices, respectively, as they also accept non-cash payments.

The study concludes that about 47 percent of business owners said they paid bribes to receive government tenders, while 42 percent said that this happens to a limited degree. These results are consistent with FEDA’s study in 2005 which concluded that 50 percent of manufacturing and service business owners pay bribes to win bids and tenders.

**Business Environment in Different Governorates:**

The survey demonstrates that the business startup period is shorter in the Port Said governorate than in any other Egyptian governorate. FEDA believes that this is because businesses in Port Said are more inclined to pay higher bribes to government officials.

FEDA agrees with the study’s observation that paying bribes is one method of overcoming bureaucratic obstacles. The ability of entrepreneurs to start a business in a timely fashion is highly dependent upon corrupt practices in all Egyptian governorates.